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TAGS: [SENV](#) [ENRG](#) [EPET](#) [ECON](#) [EINV](#) [NI](#)

SUBJECT: NIGERIA: LPG MARKET STILL DORMANT DESPITE HUGE
POTENTIAL

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11. (SBU) Summary: Organizers and participants in the All-Africa Liquefied Petroleum Gas (LPG) conference held in Lagos 30-31 March said Nigeria has made little progress in introducing LPG into the domestic market since the last meeting in 2006. Despite producing 2,000,000 metric tons per year, domestically Nigeria uses only 60,000 metric tons per year of LPG, by far the lowest use per capita in West Africa and one of the lowest in sub-Saharan Africa. Nigerians continue to rely on wood, kerosene, and diesel generators for cooking and lighting, contributing significantly to greenhouse gas emissions, health problems from indoor smoke, and deforestation. Participants agreed that Nigeria needs a better LPG regulatory environment and improved LPG infrastructure, but disagreed on the role of the GON in jump starting the market for LPG. While better regulation, improved infrastructure, and more rationale fiscal terms would help, its not by accident that Nigeria struggles to start an domestic LPG market despite its enormous supply of the fuel; politically well-connected groups that run the kerosene and diesel importation businesses have no interest in seeing their markets undercut by the introduction of LPG into Nigeria. End Summary.

12. (SBU) The World LPG Association held its All-Africa Summit in Lagos on 30-31 March. While the African attendees were almost exclusively Nigerian, the program brought together local start-up LPG companies and international LPG specialists. After opening remarks by the Minister of State for Petroleum Resources Odein Ajumogobia, several presenters from local and international firms gave their assessments of the state of LPG in Nigeria and the problems that prevent the expansion of the domestic LPG market. Various presenters highlighted the dismal state of LPG penetration in the Nigerian domestic fuel market. Nigeria's 148 million people use only 60,000 metric tons of LPG per year, compared to 420,000 metric tons consumed annually in South Africa, a country of 49 million people. South Africa has an estimated 12.5 million LPG cylinders in use in homes and small business while Nigeria has only 1 million cylinders. All the presenters cited poor infrastructure including bad roads, limited wholesale storage and distribution capacity, few high quality filling stations, and a limited retail sales network; uncertain regulation and arbitrary regulators; and fiscal regimes that tax LPG destined for domestic consumers at a

higher rate than LPG destined for export markets as the main issues that prevent Nigeria from developing a domestic LPG market.

No Progress in Three Years

13. (U) In a side bar conversation, a conference organizer with the World LPG Association said Nigeria has made almost no progress in the three years since the last LPG forum was held in Nigeria. He expressed his disappointment in the lack of apparent progress in reforming regulation and building infrastructure. His association plans to work with the nascent Nigerian LPG association to press for needed reforms and it still views Nigeria as one of the markets with the most growth potential in the world. (Note: The USTDA did a study of the Nigerian LPG market for the GON in 2006. While largely ignored over the past several years, we understand the new leadership in the Nigerian National Petroleum Corporation and petroleum ministry is taking a fresh look at the study's conclusions. In his opening remarks, the Minister of State, knowingly or unknowingly, cited demand growth estimates that were developed in the study. End Note.)

14. (U) In a later presentation, a speaker from the World LPG association highlighted to the audience concerns that potential customers unfamiliar with LPG typically have with LPG cylinder safety. New customers often fear the bottles will explode or gas will leak and poison the household. While simple public education campaigns can usually overcome these fears, a robust regulatory and cylinder inspection framework is needed to maintain safe practices. He noted that Nigeria lacks a unified regulatory body with the uncontested mandate to regulate cylinder manufacturers and

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inspect household LPG cylinders for leaks, corrosion, and damage. (Note: That function is currently, and not very clearly split, between the Department of Petroleum Resources and the Standards Organization of Nigeria. Despite being invited, neither organization sent representatives to the conference. End Note.) The spokesman said safety is the most important priority in introducing LPG into a new market; just one accident with a substandard LPG cylinder in Nigeria and the resulting negative press coverage would turn off potential customers for years.

LPG Start-Ups to Introduce Innovative Solutions

15. (U) Several companies highlighted efforts they were making to get around these problems. Nigerian LPG start-up, Strategic Energy Limited, announced plans to introduce U.S. manufactured mobile filling stations that can be set up in rural locations to fill up household cylinders from surrounding communities. The company also has plans to introduce LPG powered micro-generators that produce electricity for residential customers and small businesses or can be used by mobile phone companies to power their base stations and communication towers (currently virtually all mobile phone base stations and towers in Nigeria use diesel generators since electrical power from the grid is too unreliable). A representative for the Norwegian company Ragasco demonstrated an LPG household cylinder made from composite materials instead of metal. The cylinder is much lighter than conventional metal containers making it easier for people in rural communities to carry it to and from the filling station. The tanks are designed so they do not explode in a fire and they do not corrode, making them safer than metal cylinders. In addition, the composite material is translucent, allowing the customer to see the LPG in that tank to verify that he is not being short changed at the LPG filling station. The downside to the composite tanks is their cost, typically double that of a regular metal cylinder.

Determining the Level of Government Involvement

16. (SBU) In the final panel discussion, participants debated how to jump start a domestic LPG market and the role of the GON in establishing a domestic LPG market. Many Nigerian participants, predictably those associated with the para-statal Nigerian National Petroleum Corporation (NNPC), preferred a large state role in establishing a market, suggesting that the GON through NNPC purchase 1 million new cylinders and give them free to poor Nigerians. International experts on the panel noted that the matter was far more complex than simply buying cylinders and any plan had to be market-based to be sustainable. Cylinders introduced into the market with no clear support and distribution mechanism would go to waste. More entrepreneurial Nigerian participants thought the GON should simply establish the rules and get out of the way of start-up LPG companies, much like it had for mobile phones which are now widely distributed throughout Nigeria to rich and poor alike. (Note: The GON actually tried the mass cylinder purchase plan in the late 1990's. Back then NNPC purchased 250,000 cylinders for use in a program to kick start the household LPG market. The plan never took hold. End Note.)

17. (SBU) Comment: The potential for LPG in Nigeria is staggering and the opportunities for U.S. businesses operating in the LPG sector are seemingly boundless. Nigeria produces an abundance of LPG and could easily produce even more. Foreign and domestic companies could be manufacturing and selling tens of millions of cylinders, building and equipping thousands of retail filling stations, storage tanks, wholesale distribution trucks, plus accessory devices like stoves, lights, and even electricity generators. LPG is a cleaner, healthier, and cheaper alternative to the current sources of household fuel and a robust domestic LPG market could provide tens of thousands of needed jobs. The commonly asked question then is why is Nigeria still not using LPG? Answers given at the conference, like poor infrastructure,

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dodgy regulation, and self defeating fiscal terms don't really get to the heart of the matter. Other countries, Brazil, Turkey, South Africa for instance, easily overcame these obstacles. Like is so often the case in Nigeria, the real question that must be answered is who is benefiting from the status quo? End Comment.
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